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BY EMAIL AND RESS

March 19, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2023-0328 – Chapleau Public Utilities Corporation (CPUC) and Hydro One Networks Inc. (Hydro One) Application made under s.86(1) of the Ontario Energy Board Act, 1998 to sell and purchase the electricity distribution assets of CPUC – Reply Submission

In accordance with the Ontario Energy Board's (OEB) Procedural Order No. 1 issued on February 9, 2024, please find enclosed Hydro One's Reply Submission.

An electronic copy of this reply submission has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

Joanne Richardson

cc: Judith Meyntz, CAO, Township of Chapleau (cao@chapleau.ca)

Alan Morin, President, CPUC (operations.puc@chapleau.ca)

Jason Rioux (Jason.rioux@gmail.com)

BY EMAIL AND RESS

March 18, 2024
Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2023-0328: Application by Chapleau Public Utilities Corporation ("CPUC") for leave to sell its distribution system to Hydro One Networks Inc. ("Hydro One"), made pursuant to section 86(1)(a) of the OEB Act.

Chapleau Public Utilities Corporation (CPUC) and the Township of Chapleau have read the reply submissions by Hydro One and are in agreement with them. Neither CPUC nor the Township will be filing separate final submissions.

I request that a final decision, approving this application be made as expeditiously as possible.

Regards,

A handwritten signature in black ink, appearing to read "Jason Rioux". The signature is fluid and cursive, with the first name "Jason" being more prominent than the last name "Rioux".

Jason Rioux, Director, CPUC

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an application by Hydro One Networks Inc. and Chapleau Public Utilities Corporation under sections 86(1)(a), 86(1)(c), 78, 18, 77(5) and 74 of the *Ontario Energy Board Act, 1998*, as the case may be, for the relief necessary to effect Hydro One Networks Inc.'s purchase of the electricity distribution system assets of Chapleau Public Utilities Corporation.

AND IN THE MATTER OF an Application by Hydro One Networks Inc. pursuant to section 21 of the Act for an Order that this proceeding be disposed of without a hearing.

**REPLY SUBMISSION OF
HYDRO ONE NETWORKS INC.**

March 19, 2024

1 **1.0 INTRODUCTION**

2 In accordance with Procedural Order 1, issued by the Ontario Energy Board (“the OEB”)
3 on February 9, 2024, these are the reply submissions of Hydro One Networks Inc.
4 (“Hydro One” or “Applicant”) made in respect of a joint application (the “Application”) for
5 leave to acquire Chapleau Public Utilities Corporation (“CPUC”) (t the “Transaction”).

6 Hydro One has satisfied the OEB’s Letter of Direction, issued January 16, 2024 (“Letter
7 of Direction”). Notice of the Application was served on all parties identified in the Letter
8 of Direction. Only one party registered to intervene or provide comment in this hearing,
9 the Vulnerable Energy Consumers Coalition (“VECC”). Hydro One’s reply submissions
10 are therefore limited to responding to the submissions of only OEB Staff and VECC.

11
12 **2.0 HYDRO ONE’S SUBMISSIONS**

13 OEB Staff and VECC submissions support the Transaction stating that the Application
14 meets the “no harm” test. Hydro One agrees. The Transaction is not expected to cause
15 any degradation in the adequacy, reliability, or quality of electricity service in CPUC’s
16 service territory. In fact, CPUC customers can expect to benefit from operational
17 efficiencies by having the CPUC assets integrated into Hydro One’s larger distribution
18 system as well as benefit from additional customer services not previously available to
19 them as further described in the Application.¹ The transaction is not expected to harm
20 customers with respect to price. As outlined in the Application, OM&A savings exceed
21 50% per annum relative to CPUC historic costs.²

22
23 VECC and OEB Staff do not suggest that any of the relief being sought in the Application
24 should be denied and thus Hydro One fully supports the submissions of VECC and OEB
25 Staff in this regard.

26
27 OEB staff notes that the Applicants have demonstrated, where applicable
28 given the unique considerations of the Application, that the proposed
29 transaction will not negatively affect customers with respect to service
30 quality and reliability. Further, OEB staff supports the assertion that the
31 proposed transaction will not have a negative impact on Hydro One
32 Networks’ financial viability based on the price to be paid to acquire

¹ Exhibit A, Tab 2, Schedule 1, Sections 2.1 and 2.1.1

² Table 1 of Exhibit A, Tab 2, Schedule 1

1 Chapleau Public Utilities. OEB staff accepts that the transaction will be
2 cost effective and efficient based on the information provided by Hydro
3 One Networks in the application. OEB staff supports the immediate
4 customer integration of Chapleau Public Utilities to Hydro One Networks'
5 customer classes given the challenges associated with maintaining a
6 separate rate zone for a small group of customers if Hydro One Networks
7 elected for deferred rebasing.³
8

9 In the OEB Staff's submissions, they requested modifications to the language of the
10 Draft Accounting Orders provided in the Application and request Hydro One provide a
11 new draft accounting order for the proposed new sub-account that would track the
12 differences resulting from accounting policy changes from IFRS to US GAAP within the
13 already established account created for previous acquisitions.⁴ Hydro One has no
14 concerns with those modifications and the request. Accordingly, Hydro One has updated
15 the language in the Draft Accounting Orders, previously filed in this Application as
16 Appendices A through C. The amended Draft Accounting Orders are provided as
17 Appendix A through C to this Reply Submission. Similarly, Hydro One is also providing
18 one additional draft accounting order in Appendix D to this Reply Submission,
19 specifically for the Accounting Changes under US GAAP Deferral Account – Sub-
20 Account – CPUC, as requested by OEB Staff.

21
22 Further, OEB Staff requested clarification with respect to Hydro One's proposed
23 customer class integration and bill impact mitigation approach. Specifically, OEB Staff
24 requested that Hydro One clarify how these costs are expected to be material and that
25 Hydro One explain why it needs to recover these costs given, i) the level of forecast
26 annual implied savings and productivity gains and ii) not expecting any ongoing
27 transaction and integration costs beyond the \$368k noted in response to Exhibit I, Tab 1,
28 Schedule 7.⁵ OEB Staff' submissions therefore imply that bill mitigation costs should be
29 offset by actual achieved savings from the transaction.

³ OEB Staff Submissions - March 14, 2024, p. 3

⁴ Ibid, p. 20, 21, and 22

⁵ Ibid, p. 15

1 Hydro One submits OEB Staff's approach is inconsistent with the policies the Board has
2 introduced to incent consolidation where actual achieved savings and productivity gains
3 costs are intended to offset all transaction costs⁶ including the purchase price - not fund
4 bill mitigation requirements. Bill mitigation and the recovery of transaction and integration
5 costs should not be linked, nor included in the same discussion as the perceived 'level'
6 of forecast savings from a consolidation transaction.

7
8 Hydro One expects the cost of bill mitigation to be material. As described in Exhibit A,
9 Tab 2, Schedule 1, starting January 1, 2025, Hydro One proposes to limit the annual
10 total bill impacts for all non-residential CPUC customers to no more than 10%,
11 consistent with the OEB's historical use of the 10% mitigation threshold.⁷ Based on the
12 existing average monthly consumptions of these customers (currently ranging from
13 approximately 13,000 kwh/month to over 70,000 kwh/month) the forecast annual bill
14 impact mitigation costs will significantly exceed the \$50,000 materiality threshold and are
15 thus considered material.

16
17 However, to respond to OEB Staff's discussion of implied saving forecast over and
18 above the transaction and integration costs, Hydro One in response to Exhibit I, Tab 1,
19 Schedule 7 submitted the forecast transaction and integration costs were approximately
20 \$368,000. This excluded the costs Hydro One incurred developing the transaction
21 proposal and negotiating definitive transaction agreements and notably, the purchase
22 price of \$2.3 million as detailed in the Application.⁸

23
24 As confirmed by OEB Staff in their submissions, the anticipated bill mitigation costs meet
25 the requirement of causation⁹ and therefore lie outside of the base upon which rates
26 were derived. Additionally, Hydro One notes that in other similar OEB jurisprudence
27 where the unique circumstances of the divesting utility required unique consideration of
28 MAADs policies, the OEB has permitted the recovery of any bill mitigation that may be

⁶ Handbook to Electricity Distributor and Transmitter Consolidations – January 19, 2016, pp.11-12

⁷ Exhibit A, Tab 2, Schedule 1, p.10

⁸ Exhibit A, Tab 1, Schedule 1, p. 3

⁹ OEB Staff Submission, p. 20

1 required to effectuate the transaction.¹⁰ Given the unique challenges described on the
2 record of this proceeding (e.g., Exhibit A, Tab 2, Schedule 1, p.2 and Exhibit I, Tab 1,
3 Schedule 2, part d), Hydro One suggests that a similar treatment in this circumstance is
4 reasonable and that bill mitigation should not be funded by actual achieved savings.

5
6 Lastly, with respect to the submissions of VECC that Hydro One should track CPUC's
7 reliability metrics so that this information is available at the time of rebasing¹¹, Hydro One
8 submits that the submission is without basis and contradicts VECC's own submissions
9 on the issue. VECC in their submission wrote:

10
11 VECC concurs with the Applicants that the proposed transaction is not
12 expected to cause any degradation in the adequacy, reliability, or quality
13 of electricity service in CPUC or Hydro One's service territory, and it will
14 have a positive impact on CPUC's economic efficiency and cost
15 effectiveness.¹²
16

17 Tracking these metrics separately for CPUC is ineffective, not supported by any need
18 evidence, and unnecessarily delays operational efficiencies that can be realized by
19 eliminating the existing artificial boundary between the two distributors. Further, the cost
20 associated with doing so has not been reflected in the cost forecast that underpins the
21 acquisition of this small utility. As described in Exhibit I, Tab 2, Schedule 9, the needs of
22 the existing CPUC distribution system and the service territory it currently serves will be
23 encompassed within future Hydro One Distribution System Plans that will inform the
24 rate-setting process of Hydro One. Given these reasons, Hydro One disagrees with
25 VECC's recommendation on this specific matter.

26 27 **3.0 CONCLUSION**

28 As the OEB is aware, Hydro One sought disposal of this Application without a hearing in
29 an effort to reduce regulatory burden and to address the concerns of the Municipality of
30 Chapleau, in an expedited manner. Only VECC intervened in this Application

¹⁰ EB-2018-0271 - Application for approval for Dubreuil Lumber Inc. to sell its distribution system to Algoma Power Inc. and Related Matters OEB Decision and Order – April 4, 2019, pp. 21-22.

¹¹ VECC Submissions, p. 5

¹² Ibid., p.4

1 notwithstanding all the parties identified in the Letter of Direction. VECC and OEB Staff
2 support the relief sought in the Application as the transaction meets the no harm test.

3

4 Hydro One kindly requests that the OEB expeditiously grant the relief sought in this
5 Application such that the Transaction and the resulting benefits can be realized as
6 quickly as possible.

7

8 All of which is respectfully submitted this 19th day of March 2024.

9

10

By its counsel,

11

12

13

14

15



Monica Caceres

APPENDIX A

1.0 INTRODUCTION

Hydro One is applying to the OEB for an Accounting Order authorizing Hydro One to establish two new regulatory accounts.

The first Accounting Order is for authorization for Hydro One to establish a new regulatory deferral account referred to as the **Chapleau Historical Land Rights Deferral Account**, for the purpose of recording costs to acquire land rights required by Hydro One to operate CPUC's existing distribution system assets. The Chapleau Historical Land Rights Deferral Account will apply where, post-transaction close, Hydro One incurs costs to acquire land rights within the prior CPUC service territory that have not been furnished by CPUC prior to transaction close.

The second Accounting Order is for authorization for Hydro One to establish a new regulatory deferral account referred to as the **Bill Impact Mitigation Deferral Account**, for the purpose of recording expenses relating to the provision of any bill impact mitigation required for CPUC customers from the time of integration into Hydro One's rates until the expiry of Hydro One's current Custom IR period, December 31, 2027.

2.0 BACKGROUND

Chapleau Historical Land Rights Account

CPUC currently has assets situated on properties where, land rights could not be located or documented at the time of execution of the Agreement of Purchase and Sale, may have expired, or were never obtained. While CPUC is obligated to obtain these land rights, prior to the close of Hydro One's acquisition of CPUC's electricity distribution assets, the acquisition of all such rights is not expected to be attained in this short period of time.

Absent rights available to an electricity transmitter and distributor pursuant to s.41 of the *Electricity Act, 1998*, a transmitter or distributor must obtain all necessary land rights required prior to constructing assets on lands it does not own. If these rights have not been obtained, to avoid further trespass and to enable future work, we must obtain such

rights and the landowner has the right to be compensated for them. As the outstanding land rights contemplated to be recorded in the Chapeau Historical Land Rights Deferral Account are for lands where existing CPUC-situated assets are located, Hydro One is proposing that the customers of CPUC will be responsible for recovery of any balance in the regulatory account.

Bill Impact Mitigation Deferral Account

Upon integration of CPUC customers into Hydro One's rate classes, Hydro One has provided the expected impacts on CPUC's typical residential and general service customers' total bill in the absence of any bill impact mitigation. These impacts, sans mitigation, are shown in Table 4 of **Exhibit A, Tab 2, Schedule 1**. Hydro One is seeking the Bill Impact Mitigation Deferral Account for the purpose of recording expenses relating to the provision of any bill impact mitigation required to CPUC customers.

3.0 TEST FOR ESTABLISHMENT OF A REGULATORY ACCOUNT

To establish a regulatory account, the Board's *Filing Requirements for Electricity Transmission Applications* (dated February 11, 2016) ("Filing Requirements"), outline that the eligibility criteria of causation, materiality and prudence must be met. In addition, the Applicant must provide a Draft Accounting Order.

3.1 Causation, Materiality and Prudence

To establish a new deferral and variance account, the OEB requires that the following eligibility criteria be met:

1. Causation - The Board's Filing Requirements define Causation as "the forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived."¹
2. Materiality - The annual forecast amounts to be recorded in the proposed account must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed or capitalized in

¹ Chapter 2 Filing Requirements for Electricity Transmission Applications, February 11, 2016, p. 35

the normal course and addressed through organizational productivity improvements. Per the OEB's Chapter 2 filing requirements, distributors with fewer than 30,000 customers, as is the case for CPUC, the materiality threshold for establishing a deferral and variance account is \$50,000.

Hydro One believes that the amounts that will be recorded in the proposed accounts will exceed the materiality threshold.

3. Prudence - The nature of the amounts and forecast quantum to be recorded in the proposed accounts must be based on a plan that sets how the amounts will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. For any costs incurred, in terms of the quantum, this means that the distributor must provide evidence demonstrating why the option selected represents the cost-effective option (not necessarily least initial cost) for ratepayers.

Chapleau Historical Land Rights Derral Account

CPUC and Hydro One are legally required to attain appropriate land rights from owners where assets are situated. Hydro One, once aware of non-existent land rights, will negotiate with the landowner using market rates in the area. These costs are expected to be material (i.e., exceed \$50,000) given the intention of the disposition of the account is to customers of the former CPUC service territory and the costs expected to be incurred are outside the base of which CPUC's revenue requirement was set. The final determination of prudence will be made at the time that Hydro One applies for disposition of all or part of the account at a future rate hearing. Hydro One is not seeking approval in this application for recovery of costs recorded in this deferral account. The request for this account meets the Board's regulatory account eligibility criteria, as outlined above.

Hydro One understands there are properties for which CPUC does not have land rights. Given that the costs to be incurred are non-discretionary and material, this account should be established.

Bill Impact Mitigation Deferral Account

When Hydro One integrates CPUC customers into its established customer classes, and where those customers' total bill impacts are above 10% (a threshold established by the

Board in the Handbook for Utility Rate Applications²), Hydro One proposes to provide rate mitigation to those customers and record those costs in a new account called Bill Impact Mitigation Deferral Account. The mitigation costs expected to be incurred are outside the base of which revenue requirement was set.

The proposed use of this account, to track mitigation costs, is consistent with bill impact mitigation variance accounts, proposed and approved by the Board in proceedings EB-2007-0681, EB-2009-0096, and EB-2013-0416.

The request for this account meets the Board's regulatory account eligibility criteria outlined above.

4.0 ACCOUNTING AND REPORTING PROCESS FOR ESTABLISHMENT OF A DEFERRAL ACCOUNT

Chapleau Historical Land Rights Deferral Account

The Chapleau Historical Land Rights Deferral Account described above will be managed in the same manner as existing Hydro One variance and deferral accounts. It will be updated monthly, and interest applied (where appropriate) consistent with the OEB-approved rate. The balance will be reported to the OEB as part of the annual reporting process. Any outstanding balance will be submitted for approval to the OEB as part of a future rate filing and will be collected from customers in the CPUC legacy service territory.

Draft accounting entries for all transactions related to this account are submitted in the Draft Accounting Order at Appendix B, below, as prescribed by the OEB's filing requirements.

Hydro One requests this account be effective on the date of the closing of the Agreement.

Bill Impact Mitigation Deferral Account

² Dated October 13, 2016, Rate Mitigation Pg. v.

The Bill Impact Mitigation Deferral Account described above will be managed in the same manner as existing Hydro One variance and deferral accounts. It will be updated monthly, and interest applied (where appropriate) consistent with the OEB-approved rate. The balance will be reported to the OEB as part of the annual reporting process. Any outstanding balance will be submitted for approval to the OEB as part of a future rate filing and will be collected from Hydro One customers. This Account is similar to the Bill Impact Mitigation Variance Account approved by the OEB for use by Hydro One, whereby the Board determined that those rate classes which experienced a bill impact in excess of 10% would qualify for rate mitigation³.

Draft accounting entries for all transactions related to this account are submitted in the Draft Accounting Order at Appendix C, below, as prescribed by the OEB's filing requirements.

Hydro One requests this account be effective on the date of customer integration.

³ EB-2013-0416 The account was EB-2017-0049.

APPENDIX B

Hydro One Distribution Draft Accounting Order - Accounting Entries

Chapleau Historical Land Rights Deferral Account

Hydro One proposes the establishment of a the “Chapleau Historical Land Rights Deferral Account” to track costs incurred by Hydro One to acquire any outstanding CPUC historical land rights required to operate CPUC’s existing distribution assets, where at the time of the close of Hydro One’s acquisition of the CPUC electricity distribution assets, such land rights could not be located or documented, may have expired, or were never obtained.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Chapleau Historical Land Rights Deferral Account” effective the date of the closing of the Agreement.

Hydro One will record interest on any balance in the sub-account using the interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

<u>USofA #</u>	<u>Account Description</u>
Dr 1806	Land Rights
Cr 2205	Accounts Payable

To record the preliminary recognition of Hydro One’s costs incurred regarding the acquisition of any CPUC historical land rights.

<u>USofA #</u>	<u>Account Description</u>
Dr 1508	Other Regulatory Assets – Sub account “Chapleau Historical Land Rights Deferral Account”
Cr 1806	Land Rights.

To transfer Hydro One's costs incurred for the acquisition of any CPUC historical land rights, to the deferral account for future disposition.

<u>USofA #</u>	<u>Account Description</u>
Dr: 1508	Other Regulatory Assets – Sub account “Chapleau Historical Land Rights Deferral Account - Interest Improvement”
Cr: 6035	Other Interest Expense

To record interest improvement on the principal balance of the Chapleau Historical Land Rights Deferral Account at the OEB's published prescribed interest rate⁴.

The disposition of any balances in this account will be recovered from or refunded to customers in the CPUC service territory.

⁴ [Prescribed interest rates | Ontario Energy Board \(oeb.ca\)](https://www.oeb.ca/prescribed-interest-rates)

APPENDIX C

Hydro One Distribution Draft Accounting Order - Accounting Entries

Bill Impact Mitigation Deferral Account

Hydro One proposes the establishment of a new “Bill Impact Mitigation Deferral Account” to track mitigation costs resulting from integrating non-residential customers from CPUC into Hydro One’s existing rate classes.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Deferral Account” effective the date of CPUC customer integration until the effective date of Hydro One Networks’ next cost-based Rate Order.

Hydro One will record interest on any balance in the sub-account using the interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The disposition of any balances will be recovered from, or funded to all Hydro One Networks customers.

The following outlines the proposed accounting entries for this regulatory account.

	<u>USofA #</u>	<u>Account Description</u>
DR	1508	Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Deferral Account – non-residential customers”
CR	1100	Customer Accounts Receivable

To record the bill impact mitigation costs for former CPUC non-residential customers having been moved to appropriate Hydro One rate classes at integration.

DR	1508	Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Deferral Account – non-residential customers”
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CR 6035 Other Interest Expense

To record interest improvement on the debit principal balance of the Bill Impact Mitigation Deferral Account at the OEB's published prescribed interest rate⁵.

⁵ [Prescribed interest rates | Ontario Energy Board \(oeb.ca\)](https://www.oeb.ca/prescribed-interest-rates)

APPENDIX D

Hydro One Distribution Draft Accounting Order - Accounting Entries

Accounting Changes under US GAAP Deferral Account – Sub-Account - CPUC

Hydro One proposes the establishment of a new sub-account within the prior OEB-approved “Accounting Policy Changes” Deferral Account⁶ to record the impact of any applicable accounting changes to depreciation expense and capitalization policies on property, plant, and equipment (“PPE”) resulting from CPUC’s transition from International Financial Reporting Standards (“IFRS”) for financial accounting purposes and Modified International Financial Reporting Standards (“MIFRS”) for regulatory accounting purposes to US GAAP for both financial and regulatory accounting purposes. The deferral account will track impacts (both debits and credits) of the transition to US GAAP with respect to how costs are capitalized and depreciated. At the time of the next cost rebasing rate application of Hydro One Networks, the balance in the account shall reflect the cumulative difference between the closing net PPE balance calculated using CPUC’s existing accounting policies and the closing net PPE calculated using Hydro One Networks’ policies. The deferral account balance will be reviewed at the time of the next cost rebasing rate application to determine the appropriate approach for disposition. The sub-account will be effective the date of transaction close.

As per the OEB-issued “Accounting Policy Changes for Accounts 1575 and 1576”, a rate of return component will be applied to the balance in Account 1576 upon its disposition in rates and will require the use of separate rate riders for the disposition of the balance in Account 1576. No additional carrying charges shall accrue in this account prior to disposition.

The following outlines the proposed accounting entries for this regulatory account.

<u>USofA #</u>	<u>Account Description</u>
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⁶ EB-2018-0270 and EB-2018-0242

DR/CR:	1576	Accounting Policy Changes – Sub-Account – Former CPUC Service Territory
CR/DR:	4305/4310	Regulatory Debit/Regulatory Credit

To record the annual difference between the net PPE balances calculated using CPUC's accounting policies and the net PPE balances calculated using Hydro One Networks' accounting policies.